

# **Report of the auditor-general to the Limpopo provincial legislature and the council on Elias Motsoaledi Local Municipality**

## **Report on the financial statements**

### **Introduction**

1. I have audited the financial statements of the Elias Motsoaledi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2016, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2015 (Act No. 1 of 2015) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

## Basis for qualified opinion

### Property rates

6. The municipality did not accrue for revenue on all properties in the municipality's jurisdiction. I identified properties indicated as unknown in the underlying accounting records for which the municipality did not assess the ownership. In the absence of this information, I was not able to determine the full extent of the understatement of revenue from property rates stated at R22 395 062, receivables from non-exchange stated at R3 125 846 and related disclosures in the annual financial statements as it was impracticable to do so. Additionally, there is a resultant impact on the accumulated surplus.

### Property plant and equipment

7. The municipality did not recognise property, plant and equipment in accordance with GRAP 17 *Property, plant and equipment*. I identified a number of assets belonging to the municipality that were incorrectly derecognised from the accounting records. Property, plant and equipment stated at R877 591 505 (2015: R824 533 541) in the financial statements is therefore understated by R15 346 282. Additionally, there is a resultant impact on the accumulated surplus.
8. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding figure for property, plant and equipment. As described in note 41 to the financial statements, the restatement was made to rectify a prior year misstatement, but the restatement could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. Consequently, I was unable to determine whether any adjustment to the property, plant and equipment corresponding figure stated at R824 533 541 in the financial statements was necessary.
9. The matters reported on, in the preceding paragraphs will have a resultant impact on the accumulated surplus and note 41 to the financial statements.

### Fruitless and wasteful expenditure

10. The municipality incurred expenditure that could have been avoided had reasonable care been exercised. I was unable to determine the full extent of the understatement of fruitless and wasteful expenditure disclosed at R15 845 in the financial statements by alternative means due to the status of the accounting records.

### Irregular expenditure

11. The municipality made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R64 948 315 (2015: R22 748 812). As the municipality did not implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective, I was unable to determine the full extent of the understatement by alternative means. Consequently, I was

unable to determine whether any further adjustments relating to irregular expenditure disclosed at R150 538 432 (2015: R69 990 685) in the financial statements was necessary.

## **Qualified opinion**

12. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Elias Motsoaledi Local Municipality as at 30 June 2016 and its financial performance and cash flows for the year then ended, in accordance with SA standards of GRAP and the requirements of the MFMA and the DoRA.

## **Emphasis of matter**

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

## **Restatement of corresponding figures**

14. As disclosed in note xx to the financial statements, the corresponding figures for 30 June 2015 have been restated as a result of errors discovered during 2016 in the financial statements of the municipality at, and for the year ended, 30 June 2015.

## **Additional matters**

15. I draw attention to the matters below. My opinion is not modified in respect of these matters.

## **Unaudited supplementary schedules**

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon.

## **Unaudited disclosure notes**

17. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

## **Report on other legal and regulatory requirements**

18. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on the reported performance information against predetermined objectives for selected development priorities presented in the annual performance report, compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Predetermined objectives**

19. I performed procedures to obtain evidence about the usefulness and reliability of the reported performance information for the following selected development priorities presented in the annual performance report of the municipality for the year ended 30 June 2016:
  - Development priority 1: To provide a systematic integrated spatial / land development policy on pages xx to xx.
  - Development priority 4 : Reduction of service delivery backlog pages xx to xx
20. I evaluated the reported performance information against the overall criteria of usefulness and reliability.
21. I evaluated the usefulness of the reported performance information to determine whether it was presented in accordance with the National Treasury's annual reporting principles and whether the reported performance was consistent with the planned development priorities. I further performed tests to determine whether indicators and targets were well defined, verifiable, specific, measurable, time bound and relevant, as required by the National Treasury's *Framework for managing programme performance information* (FMPPI).
22. I assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
23. The material findings in respect of the selected development priorities are as follows:

### **Development priority 1: To provide a systematic integrated spatial/ land development policy**

Usefulness of reported performance information

Consistency of objectives, indicators and targets

24. Section 41(c) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA) requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 10% important reported objectives and indicators and targets were not consistent with those in the approved integrated development plan.

Reliability of reported performance information

25. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

## **Development priority 4: Reduction of service delivery backlog**

Usefulness of reported performance information

Consistency of objectives, indicators and targets

26. Section 41(c) of the MSA requires the integrated development plan to form the basis for the annual report, therefore requiring consistency of objectives, indicators and targets between planning and reporting documents. A total of 5% important reported objectives and indicators and targets were not consistent with those in the approved integrated development plan.

Measurability of indicators and targets

27. The FMPPI requires that performance targets should be specific in clearly identifying the nature and required level of performance and/or measurable and/or specify the period or deadline for delivery. A total of 5% of important targets were not specific and measurable and time bound.

Reliability of reported performance information

28. The FMPPI requires auditees to have appropriate systems to collect, collate, verify and store performance information to ensure reliable reporting of actual achievements against planned objectives, indicators and targets. The reported performance information was not reliable when compared to the evidence provided.

## **Additional matters**

29. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Achievement of planned targets

30. Refer to the annual performance report on pages xx to xx for information on the achievement of the planned targets for the year. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information for the selected development priorities reported in paragraphs xx to xx of this report.

Unaudited supplementary information

31. The supplementary information set out on pages xx to xx does not form part of the annual performance report/financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not report thereon.

## **Compliance with legislation**

32. I performed procedures to obtain evidence that the municipality had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

### **Annual financial statements**

33. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA.

Material misstatements of non-current assets, current assets, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

### **Procurement and contract management**

34. Goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by *Supply Chain Management Regulation* (SCM regulation) 19(a).
35. Contracts were awarded to bidders based on preference points that were not allocated and calculated in accordance with the requirements of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) and its regulations.
36. Contracts were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).
37. Awards were made to providers who were in the service of the municipality or whose directors are in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore the provider failed to declare that he/she was in the service of the municipality, as required by SCM regulation 13(c). Similar non-compliance was reported in the previous year and the municipality did not take disciplinary action against the suppliers and officials involved.
38. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the *Code of conduct for councillors* issued in terms of the MSA and the *Code of conduct for staff members* issued in terms of the MSA.

### **Revenue management**

39. Interest was not charged on all accounts in arrears, as required by section 64(2)(g) of the MFMA.

## **Liability management**

40. ABSA Vehicle Management Services security was issued without a resolution by the municipal council, as required by section 48(1) of the MFMA.
41. The municipality issued securities for purposes other than those provided for in section 48(1) of the MFMA.

## **Expenditure management**

42. Reasonable steps were not taken to prevent unauthorised, irregular as well as fruitless and wasteful expenditure, as required by section 62(1)(d) and 95(d) of the MFMA.

## **Human resource management**

43. The municipality did not develop and adopt appropriate systems (policies) and procedures to monitor, measure and evaluate performance of staff in contravention of section 67(d) of the MSA.

## **Consequence management**

44. Unauthorised, irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

## **Internal control**

45. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.

## **Leadership**

46. Review and monitoring of the financial and performance reporting by the accounting officer was inadequate. This resulted in the annual financial statements and the annual performance report containing material misstatements.
47. The action plan developed by the municipality did not address internal and external audit findings to ensure that root causes for audit findings are resolved.
48. Instances of unauthorised, irregular and fruitless and wasteful expenditure were not investigated and effective and appropriate disciplinary steps were not taken against officials who made and/or permitted this expenditure.
49. There was a lack of adequate monitoring controls over development and implementation of internal policies and processes, human resources management for the maintenance of job descriptions, vacancy management and performance management as well as the effective implementation of action plans.

## **Financial and performance management**

50. The municipality did not have a proper system of record management and an approved record classification system that provides for the maintenance of information that supports the financial statements and reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.
51. The accounting officer did not adequately review and monitor compliance with laws and regulations resulting in numerous non-compliance findings.

## **Governance**

52. The internal audit division of the municipality was not adequately staffed to meet the needs of the municipality and fulfil all its functions.
53. The audit committee did not perform some of its oversight functions effectively as quarterly operating and strategic reports were not always reviewed and not all planned audits were completed. The effectiveness of the audit committee was also affected by the understaffed internal audit unit.

Auditor General  
Polokwane

30 November 2016



AUDITOR-GENERAL  
SOUTH AFRICA

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